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Apprenticed Investor: Lose the News

Barry Ritholtz

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Have you ever noticed how the stock market reacts differently to the same reported events?

Why is it that we sometimes sell off "in response to rising oil prices," but at other times the "market rallied, despite the rise in the price of crude"?

How come a selloff was caused by a suicide bombing in Iraq, but a week later, the markets shrugged off an even larger, deadlier bombing? Is it possible that the markets are responding to forces other than the latest headlines?

Short answer: *Absolutely. Yes.*

Longer answer: *Keep reading.*

As we discussed [last week](#), it's clear that predictions of pontificating pundits have an extremely short shelf life and can be safely ignored. But it's not just the talking heads who can throw you off your game. The value of the entire financial news complex -- both print and electronic -- seems to be hugely misunderstood by investors.

Even worse, many investors misapply what they hear; they ignore data, focusing instead on headlines and occasionally, the opinions. There are at least three problems with this approach:

- First, news is hardly new. The vast majority of it is backward-looking, informing you as to what has happened already. Investing is about what is *going to happen*; what's occurred in the past may be of interest, but it's hardly germane to the investment process. Indeed, by the time the news is "out," it already has been built into the stock price.

Worse yet, old news can have an impact on your thought process. That's why I read *The Wall Street Journal* on the train home, and not on the way to work. Why? It forces me to recognize that the news is stale, and I avoid allowing it to influence my decision-making process. Instead, it becomes for informational purposes only (Yes, I really do this).

- Second, the vast majority of news is irrelevant to your investing.

Sure, the data points on occasion may be important, but the rest is essentially infotainment and filler. I find *CNBC* both informative and entertaining -- but it's not the basis of my investment decisions. This explains why there aren't any hedge funds running money on the basis of what's on TV.

Even with situations that involve binary events -- a yes/no FDA decision, a litigation outcome, an earnings report -- it's not the news coverage of these that matters so much as the actual data point.

Did the FDA approve a new drug or not? The subsequent reporting is irrelevant; it's the event that matters.

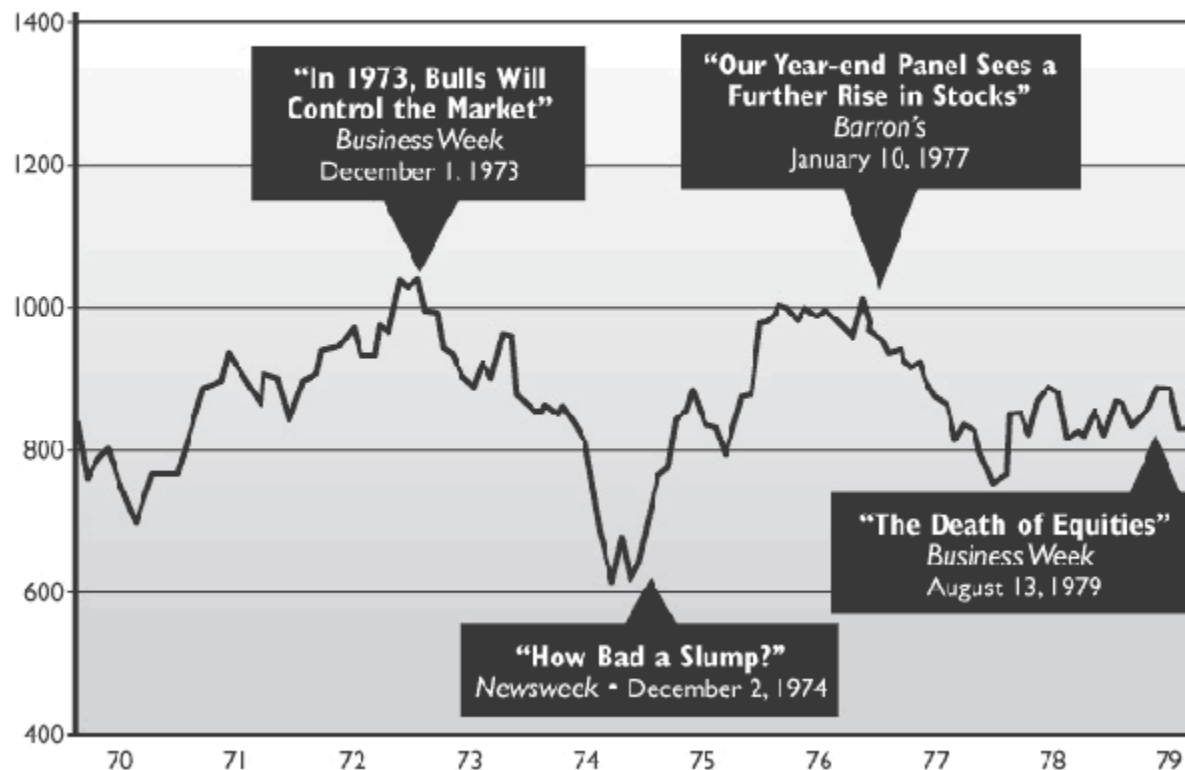
Quite often, it's not the news that matters, but the reaction to the news. Look at **Intel's** INTC midquarter update. It was good all around, but the stock has since slipped. That's because the improved environment, especially for laptops, was already well known. It was fully built into Intel shares.

When we consider events of even greater historical significance, we discover something rather astounding: Over the long haul, the markets ignore things like Pearl Harbor, JFK's assassination and even the Sept. 11 terrorist attacks. Gary B. Smith [showed](#) how after their initial response, the markets resume whatever their prior trend was.

- Third, because news organizations often try to appeal to as many people as possible, they have a disconcerting tendency to catch various trends just as they are peaking.

Have a look at these charts provided by Neal Frankle, author of *Why Smart People Lose a Fortune*. They offer a compelling explanation as to why the mainstream media should not be the source of your investment strategy; in fact, they can often be a strong contrary indicator.

Media Market Timing: The '70s



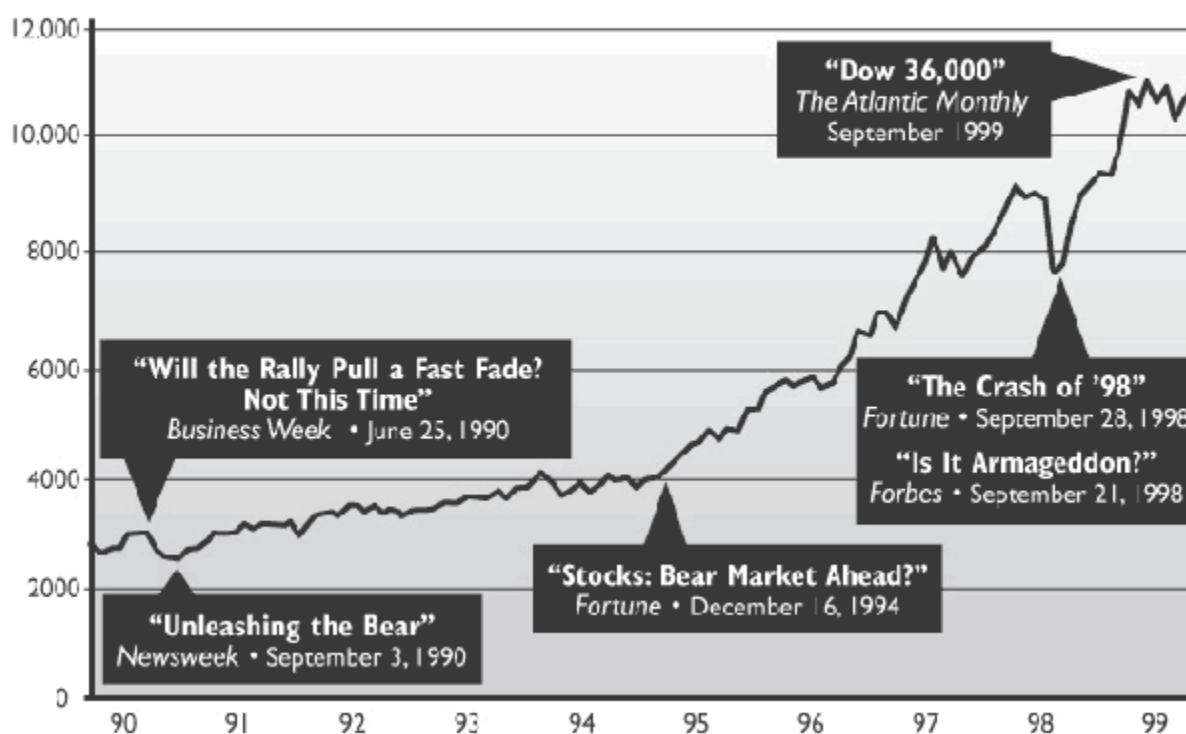
Source: *Why Smart People Lose A Fortune*, by Neal Frankle

Media Market Timing: The '80s



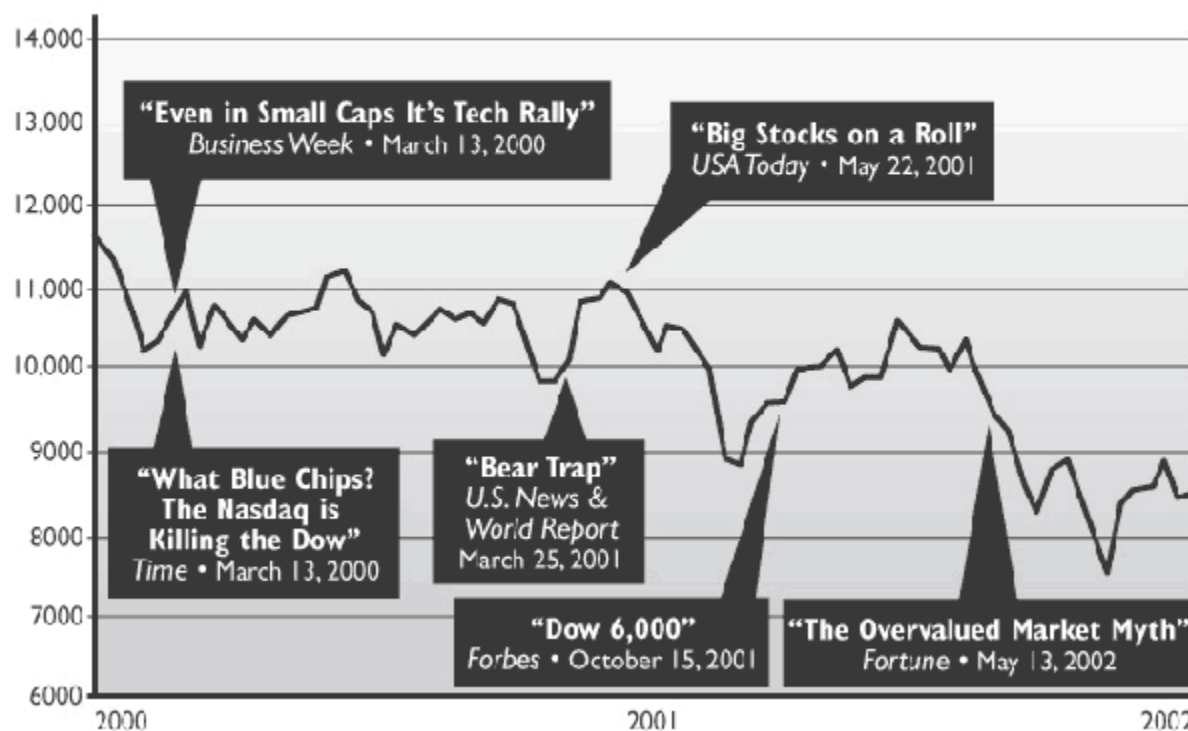
Source: *Why Smart People Lose A Fortune*, by Neal Frankle

Media Market Timing: The '90s



Source: *Why Smart People Lose A Fortune*, by Neal Frankle

Media Market Timing: The '00s



Source: *Why Smart People Lose A Fortune*, by Neal Frankle

Avoid the Headline of the Day

The news machine needs to create an enormous amount of content to have product to sell. Hours on TV and radio, pages in print and on the Web. Remember, most media are advertising-driven, and it requires all that content to be able to sell all those ads. (That's why jokers like me are on so often).

Just think about some of the recent headlines and their impact on both markets and individual stocks. The CEO of a major brokerage firm resigns -- *who cares!* Martha gets out of jail: *Whoop-de-doo!*

The media focus on the "sensationalistic or scandalous, rather than market-moving," observes *Real Money.com* trading diarist James "Rev Shark" DePorre. "Stuff like the firing of a CEO, the housing "bubble" or Martha Stewart's latest travails may be interesting, but they don't help you much with your investments."

I agree with Shark's contention that the "media are at their best when they focus on emerging market trends." You know, the stuff that has yet to make the magazine covers or major headlines. That may give you a push in the direction of an investable theme. Unfortunately, this sort of coverage is rare and often found in specialty magazines such as *Wired*, *CFO* and *The Economist*.

There are exceptions to every rule, and this one is no different. The most valuable thing the media can do for you is to grant you an audience with people you might not have access to otherwise.

It's particularly useful to see or read the wisdom from those people who do not need the publicity and have no agenda. They are merely identifying issues that they believe need to be addressed and that often are not.

This isn't to suggest that you should blindly follow the star investors: Simply because former **General Electric**

GE chairman Jack Welch or **Berkshire Hathaway's** BRK.A Warren Buffett say something will happen is no guarantee it's going to come true. When others are opining about what's to come -- even the greats -- you should have a healthy skepticism.

Still, I will closely listen to any investment giant who has a spectacular track record over long periods of time, meaning his or her performance is not the result of mere chance.

A few examples: T. Boone Pickens on *Kudlow & Cramer* a year ago saying oil's price rise was not a temporary phenomena; Julian Robertson on *CNBC* discussing the dollar; Former **Federal Reserve** Chairman Paul Volcker identifying structural imbalances in the U.S. economy in *The Washington Post*; and the *Barron's* interviews with folks like Ned Davis, Ray Dalio, Walter Deemer, Seth Glickenhau and others.

Giving you access to such financial luminaries is one valuable service the media provide for investors. As for the rest, savvy investors know it's mainly just noise and entertainment.

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